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SECSTATE FOR EB/IFD/ODF AND EUR/RPE  
 TREASURY FOR CORNELL AND LANGE  
 COMMERCE FOR R. Y. LEE  
 EXIMBANK FOR T. CHAPMAN  
 USTR FOR KRIST AND PIPER  
 BRUSSELS FOR USEC

E.O. 12356: DECL:12/08/92

TAGS: OECD, ETRD

SUBJECT: OECD ARRANGEMENT ON THE GUIDELINES FOR  
 - OFFICIALLY SUPPORTED CREDITS BACKGROUND  
 - FOR ASTRAKHAN SOUR GAS PROJECT

REFS: (A) MOSCOW 14689, (B) PARIS 41103

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 1. CONFIDENTIAL - ENTIRE TEXT.  
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2. OECD SECRETARIAT BELIEVES THAT ACCORDING TO THE  
 RULES OF THE ARRANGEMENT ON THE GUIDELINES FOR  
 OFFICIALLY SUPPORTED EXPORT CREDITS, FRANCE IS ABLE  
 TO "GRANDFATHER" ITS REFINANCING INTEREST RATE FOR  
 EXPORT CREDITS AT NO LESS THAN 11 PERCENT. END SUMMARY.  
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3. IN VIEW OF REFTELS, MISSION OFFICER SOUGHT  
 SECRETARIAT VIEWS ON FRENCH GRANDFATHERING RIGHTS FOR  
 THE ASTRAKHAN GAS PROJECT UNDER THE ARRANGEMENT ON  
 THE GUIDELINES FOR OFFICIALLY SUPPORTED EXPORT  
 CREDITS FOR THE ASTRAKHAN GAS PROJECT. WITH AN  
 IMPECCABLE CARTESIAN LOGIC, THE SECRETARIAT  
 (POINCILIT, BITTNER AND WELSH) REACHED THE CONCLUSION  
 THAT THE FRENCH CAN OFFER A GRANDFATHERED REFINANCING  
 INTEREST RATE OF NO LESS THAN 11 PERCENT IF THEY ARE  
 ABIDING BY THE PROVISIONS OF THE ARRANGEMENT. THE  
 FOLLOWING CHRONOLOGY INDICATES HOW THE SECRETARIAT  
 REACHED THAT RATE:  
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- IN MARCH 1978 THE RATE TO CATEGORY II COUNTRIES  
 (WHICH INCLUDED THE SOVIET UNION) WAS RAISED TO 7.75  
 PERCENT.

State Dept. review  
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82 0046551

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PAGE 002

NC 0046551

TOR: 081628Z DEC 82

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- ON JULY 1, 1980, THE RATE TO CATEGORY II COUNTRIES WAS RAISED TO 8.5 PERCENT AND PARTICIPANTS UNDERTOOK AN OBLIGATION TO NOTIFY NON-CONFORMING LINES AND PRIOR COMMITMENTS. THE GOF NOTIFIED AN UNLIMITED LINE TO USSR AT A BOUND RATE VALID UNTIL SEPTEMBER 30, 1981 AT WHICH TIME THEY PLANNED TO REVIEW THE RATE. CONSEQUENTLY, THE FRENCH WERE PERMITTED TO MAINTAIN THE 7.75 PERCENT RATE UNTIL SEPTEMBER. THEREAFTER, THEY DID NOT NOTIFY THE SECRETARIAT OF AN EXTENSION OF THAT RATE SO THE PARTICIPANTS HAD THE RIGHT TO ASSUME THAT THE GOF INSTITUTED THE 8.5 PERCENT RATE IN SEPTEMBER 1981.  
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- ON NOVEMBER 16, 1981, THE RATE TO CATEGORY II COUNTRIES WAS RAISED TO 11 PERCENT WITH OUTSTANDING NON-CONFORMING LINES OF CREDIT OR PRIOR COMMITMENTS TO BE NOTIFIED BY FEBRUARY 1982. THE FRENCH MADE NO NOTIFICATION OF AN OUTSTANDING LINE FOR THE USSR AT 8.5 PERCENT SO PARTICIPANTS HAD THE RIGHT TO ASSUME THAT THEY WERE OFFERING CREDITS AT 11 PERCENT.  
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- ON JULY 6, 1982, THE RATE TO CATEGORY I COUNTRIES (TO WHICH THE USSR WAS ELEVATED) WAS RAISED TO 12.4 PERCENT WITH AN OBLIGATION TO NOTIFY NON-CONFORMING LINES OR PRIOR COMMITMENTS BY JANUARY 6, 1983. TO DATE THE GOF HAS MADE NO SUCH NOTIFICATION. CONSEQUENTLY, IF THE GOF IS GRANDFATHERING THE REFINANCING RATE IT IS OFFERING IN COMPLIANCE WITH THE ARRANGEMENT, IT SHOULD BE QUOTING A RATE OF NO LESS THAN 11 PERCENT. AFTER JANUARY 6, IF THEY HAVE NOT NOTIFIED A NON-CONFORMING LINE OR PRIOR COMMITMENT FOR THE USSR, PARTICIPANTS HAVE A RIGHT TO ASSUME THEY ARE OFFERING 12.4 PERCENT.  
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4. IF OTHER PARTICIPANTS IN THE ARRANGEMENT BELIEVE THE GOF IS IN FACT OFFERING A REFINANCING INTEREST RATE LOWER THAN THE ARRANGEMENT INTEREST RATE THEY MAY USE THE ARRANGEMENT INFORMATION SYSTEM TO ASK THE GOF FOR A CLARIFICATION OF THE RATE THEY ARE OFFERING ON THE PROJECT AND CAN LEGALLY MATCH THE FRENCH RATE IF IT IS BELOW THE ARRANGEMENT RATE.  
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5. IT IS IMPORTANT TO NOTE THAT THE PROVISION IN THE ARRANGEMENT COVERS ONLY THE REFINANCING RATE OF A

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TRANSACTION NOT THE CONTRACT RATE. THE SECRETARIAT SPECULATED THAT THE ASTRAKHAN PROJECT MAY END UP CONTRACT INTEREST RATE AROUND 8 PERCENT WITH THE FINANCING RATE IN THE RANGE OF 11-12 PERCENT. THEY ALSO NOTED THAT THE RULE OF THUMB AMONG EXPORT CREDIT AGENCIES IS THAT THE ONE PERCENT DECREASE OF THE CONTRACT RATE BELOW THE REFINANCING RATE RESULTS IN A 4 PERCENT INCREASE IN THE PRICE. CONSEQUENTLY, THE ASTRAKHAN GAS PROJECT PRICE WILL PROBABLY HAVE TO BE PADDED IN THE NEIGHBORHOOD OF 15-20 PERCENT TO COVER THE DISCREPANCY BETWEEN THE TWO RATES.

KATZ

END OF MESSAGE

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